

**CITY OF EPWORTH
EPWORTH, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2005**

**CITY OF EPWORTH
EPWORTH, IOWA**

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**CITY OF EPWORTH
EPWORTH, IOWA**

JUNE 30, 2005

OFFICIALS

Name -----	Title -----	Term Expires -----
Phillip W. Silker	Mayor	12-31-07
Larry Biermann	Council Member	12-31-07
David Bries	Council Member	12-31-05
Jacob Feldmann	Council Member	12-31-07
LuAnn Spiegel	Council Member	12-31-05
Chris Williams	Council Member	12-31-05
Janet Berger	Administrator/Clerk	Indefinite
William G. Blum	Attorney	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the City of Epworth, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Epworth's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with United States of America generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than United States of America generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2004.

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2004, as discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects the respective cash basis financial position of the governmental activities, the business type activities, and each major fund of the City of Epworth as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 14, during the year ended June 30, 2005, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated August 10, 2005, on our consideration of the City of Epworth's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Epworth's basic financial statements. Other supplementary information included in Schedules 1 through 2, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

O'CONNOR, BROOKS & CO., P.C.

Dubuque, Iowa
August 10, 2005

**CITY OF EPWORTH
EPWORTH, IOWA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Epworth provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2005 FINANCIAL HIGHLIGHTS

Revenues of the City's governmental activities decreased 16.5%, or approximately \$167,000, from fiscal 2004 to fiscal 2005, largely due to depletion of HUD funds for Housing Rehabilitation Projects. Property tax increased approximately \$40,000.

Disbursements decreased 38%, or approximately \$508,000, in fiscal 2005 from fiscal 2004. Largely due to decreased disbursements for capital street projects and housing rehabilitation projects.

The City's total cash basis net assets increased 2.5%, or approximately \$26,400 from June 30 2004 to June 30, 2005. Of this amount, the assets of the governmental activities increased approximately \$13,400 and the assets of the business type activities increased by approximately \$13,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the schedule of indebtedness for the year ended June 30, 2005.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks system, the sanitary sewer system, and utility deposits. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and customer deposits funds, considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$914,694 to \$928,126. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	Year Ended June 30,	
	2005	2004
Receipts:		
Program receipts:		
Charges for service	\$ 116,274	\$ 101,356
Operating grants, contributions, and restricted interest	139,247	155,798
Capital grants, contributions, and restricted interest	129,907	279,813
General receipts:		
Property tax	252,478	212,709
Local option sales tax	164,693	157,086
Unrestricted investment earnings	16,732	3,357
Other general receipts	22,937	34,673
Sale of capital assets	750	64,950
Total Receipts	\$ 843,018	\$1,009,742
Disbursements:		
Public safety	\$ 110,580	\$ 217,539
Public works	179,157	199,377
Culture and recreation	71,215	47,276
Community and economic development	11,862	13,525
General government	67,736	64,484
Debt service	194,135	198,308
Capital projects	194,901	596,862
Total Disbursements	\$ 829,586	\$1,337,371
Increase (Decrease) in Cash Basis Net Assets	\$ 13,432	\$ (327,629)
Cash Basis Net Assets Beginning of Year	914,694	1,242,323
Cash Basis Net Assets End of Year	\$ 928,126	\$ 914,694
	=====	=====

The City's total receipts for governmental activities decreased by 16.5%, or \$167,000. The decrease in receipts was primarily the result of depletion of HUD funds for housing rehabilitation projects. The total cost of all programs and services decreased by approximately \$508,000, or 38%, with no new programs added this year. The significant decrease in disbursements is because of a reduced spending for capital street projects and housing rehabilitation projects. The City increased property tax rates for 2005 by .716/1000 of valuation. This increase, the first in nine years, raised the City's property tax receipts by approximately \$40,000 in 2005.

The cost of all governmental activities this year was \$829,586 compared to \$1,337,371 last year. The decrease is largely due to the reduction of disbursements for federally funded housing rehabilitation grant projects and the remaining disbursements relating to the prior year's Street Improvement project. The remaining 2003 bond proceeds are anticipated to be disbursed in fiscal year 2006 under the 2005 Street and Water Improvement Project.

Changes in Cash Basis Net Assets of Business Type Activities

	Year Ended June 30,	
	2005	2004
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 95,681	\$ 96,918
Sewer	87,857	87,315
Customer deposits	3,520	3,050
Operating grants, contributions and restricted interest	---	---
Capital grants, contributions and restricted interest	---	---
General Receipts:		
Unrestricted interest on investments	1,970	851
Miscellaneous	7,122	9,010
Transfers, net	---	---
Total Receipts	\$ 196,150	\$ 197,144
Disbursements:		
Water	\$ 83,994	\$ 69,791
Sewer	95,848	91,067
Customer deposits	3,270	2,775
Total Disbursements	\$ 183,112	\$ 163,633
Increase (Decrease) in Cash Basis Net Assets	\$ 13,038	\$ 33,511
Cash Basis Net Assets Beginning of Year	140,792	107,281
Cash Basis Net Assets End of Year	\$ 153,830	\$ 140,792

Total business type activities receipts remained steady for the fiscal year at \$196,150 compared to \$197,144 last year. This cash balance increased by \$13,308 from the prior year. Total disbursements for the fiscal year increased by 11.9% to a total of \$183,112 due to the installation of water and sewer main extensions.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Epworth completed the year, its governmental funds reported a combined fund balance of \$928,126, an increase of \$13,432 above last year's total of \$914,694. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$6,182 from the prior year to \$319,092. The increase is attributed to underestimated revenues in local option sales tax.

The Road Use Tax Fund cash balance increased by \$60,592 to \$93,147 during the fiscal year. The City intends to set aside these funds for equipment reserves and future projects.

The Local Option Community Betterment Fund is based on 25% of the revenue from the local option sales tax. The City Council appropriates these funds for the reduction of street assessments. In fiscal year 2005 the City transferred \$40,000 to the Debt Service Fund to reduce tax asking. The fund has accumulated a cash balance of \$101,401 and of June 30, 2005.

The local tax Assessment Pool is based on 25% of the revenue from the local option sales tax. The City Council appropriates these funds for the reduction of street assessments. In fiscal year 2005 the City transferred \$40,000 to the Debt Service Fund toward Street Improvement Debt. The fund has a cash balance of \$19,066 as of June 30, 2005.

The Debt Service Fund cash balance increased by \$4,492 to \$13,937 during the fiscal year. This increase was due to an increase in paid assessments and interest revenue. Bond principal and interest payments decreased by \$4,173 in fiscal 2005.

The Housing Rehabilitation Project Fund cash balance carries a deficit balance of \$(2,495). The City has elected to pay project contractors prior to receipt of the respective HUD grant funds. The fund will return to a sound financial position as the grant funds are received. The City offered \$12,000 in administrative local funds, which were available in a prior year from a participant's repayment on the terms of the forgivable loan.

The Paving Project Fund is a Capital Project Fund for street improvement projects. The 2005 Street and Water Improvement Project disbursements are expected to deplete the remaining 2003 bond proceeds. The fund has a cash balance of \$383,978 on June 30, 2005.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance increased by \$19,317 to \$91,697, due primarily to an increase in the sale of water over the prior year. Disbursements included a construction extension project of \$6,132.

The Sewer Fund cash balance decreased by \$6,529 to \$55,143, due primarily to the construction extension project at a cost of \$14,618.

The Utility Deposits fund has a cash balance of \$6,990.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The first amendment was approved on May 24, 2005 and resulted in an increase in projected operating disbursements of \$81,000. Added expenses include fire station roof coat, electrical upgrade, mower upgrade, added mowing expenses, library shelving, lightning damages, and sewer lining project. The new park pavilion and turf machine made possible with the assistance from DRA grant and Town & Country proceeds. Increased revenues in receipts of local option sales tax, local grants and insurance claim proceeds. The City had sufficient cash balances to absorb other department disbursement. Capital projects in progress resulted in a rollover cash balance to next fiscal year.

DEBT ADMINISTRATION

At June 30, 2005, the City had \$620,000 in bonds and \$241,662 in water and sewer utility long-term debt for a total of \$861,662, compared to approximately \$1,058,994 last year, as shown below.

Outstanding Debt at Year End		
	June 30,	
	2005	2004
General Obligation Note	\$ 620,000	\$ 790,000
Revenue Note	241,662	268,994
Total	\$ 861,662	\$1,058,994
	=====	=====

The City's most recent General Obligation Notes were issued in 2003 and will be retired annually with the final payment June 1, 2009. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$620,000 is significantly below its constitutional debt limit of \$2.62 million. The Revenue Notes payment schedule continues to July , 2020.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City of Epworth's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy and rising fuel prices. The City has experienced steady residential growth for a steady increase in taxable valuation, but the state rollback diminishes the impact. The City continues to use a portion of cash balances to defray General Fund operating expenses. One major program change involves the library service. The City provides a site for a branch County library since July 18, 2004, which has increased the operating costs of the building and has increased the library budget. The County operates the branch library at a cost of \$20.80 per capita for budget 2006.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Janet Berger, City Clerk, 212 N Center Avenue, City of Epworth, Iowa.

**BASIC
FINANCIAL
STATEMENTS**

EXHIBIT "A"

**CITY OF EPWORTH
EPWORTH, IOWA**

**STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005**

	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental Activities:							
Public safety	\$ 110,580	\$ 36,744	\$ ---	\$ ---	\$ (73,836)	\$ ---	\$ (73,836)
Public works	179,157	69,824	133,200	2,019	25,886	---	25,886
Culture and recreation	71,215	6,450	5,047	10,000	(49,718)	---	(49,718)
Community and economic development	11,862	---	---	117,888	106,026	---	106,026
General government	67,736	3,256	1,000	---	(63,480)	---	(63,480)
Debt service	194,135	---	---	---	(194,135)	---	(194,135)
Capital projects	194,901	---	---	---	(194,901)	---	(194,901)
Total Governmental Activities	\$ 829,586	\$ 116,274	\$ 139,247	\$ 129,907	\$ (444,158)	\$ ---	\$ (444,158)
Business Type Activities:							
Water	\$ 83,994	\$ 95,681	\$ ---	\$ ---	\$ ---	\$ 11,687	\$ 11,687
Sewer	95,848	87,857	---	---	---	(7,991)	(7,991)
Utility deposits	3,270	3,520	---	---	---	250	250
Total Business Type Activities	\$ 183,112	\$ 187,058	\$ ---	\$ ---	\$ ---	\$ 3,946	\$ 3,946
Total	\$ 1,012,698	\$ 303,332	\$ 139,247	\$ 129,907	\$ (444,158)	\$ 3,946	\$ (440,212)
General Receipts:							
Property tax levied for:							
General purposes					\$ 137,137	\$ ---	\$ 137,137
Debt service					115,341	---	115,341
Other city tax					172,508	--	172,508
Unrestricted interest on investments					16,732	1,970	18,702
Miscellaneous					15,122	7,122	22,244
Sale of capital assets					750	---	750
Total General Receipts					\$ 457,590	\$ 9,092	\$ 466,682

See notes to financial statements

EXHIBIT "A" (Continued)

**CITY OF EPWORTH
EPWORTH, IOWA**

**STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005**

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Change in Cash Basis Net Assets					\$ 13,432	\$ 13,038	\$ 26,470
Cash Basis Net Assets Beginning of Year					914,694	140,792	1,055,486
Cash Basis Net Assets End of Year					\$ 928,126	\$ 153,830	\$ 1,081,956
					=====	=====	=====
Cash Basis Net Assets							
Restricted:							
Streets					\$ 112,213	\$ ---	\$ 112,213
Community betterment					101,401	---	101,401
Debt service					13,937	38,362	52,299
2003 bond issue - capital projects					383,978	---	383,978
Unrestricted					316,597	115,468	432,065
Total Cash Basis Net Assets					\$ 928,126	\$ 153,830	\$ 1,081,956
					=====	=====	=====

See notes to financial statements.

EXHIBIT "B"

CITY OF EPWORTH
EPWORTH, IOWASTATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BALANCES - GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

		Special Revenue				Capital Project		
	General	Road Use Tax	Local Tax Community Betterment	Local Tax Assessment Pool	Housing Rehab Projects	Paving Project	Debt Service	Total
Receipts:								
Property tax	\$ 134,546	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ 113,134	\$ 247,680
Other city tax	84,939	---	41,173	41,173	---	---	2,207	169,492
Licenses and permits	3,256	---	---	---	---	---	---	3,256
Use of money and property	14,424	---	---	---	---	7,491	1,267	23,182
Intergovernmental	19,425	133,200	---	---	117,888	---	---	270,513
Charges for services	98,230	---	---	---	---	---	---	98,230
Special assessments	---	---	---	---	---	---	2,019	2,019
Miscellaneous	18,554	---	---	---	9,342	---	---	27,896
Total Receipts	\$ 373,374	\$ 133,200	\$ 41,173	\$ 41,173	\$ 127,230	\$ 7,491	\$ 118,627	\$ 842,268
Disbursements:								
Operating:								
Public safety	\$ 110,580	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ 110,580
Public works	114,240	64,917	---	---	---	---	---	179,157
Culture and recreation	71,215	---	---	---	---	---	---	71,215
Community and economic development	4,171	7,691	---	---	---	---	---	11,862
General government	67,736	---	---	---	---	---	---	67,736
Debt service	---	---	---	---	---	---	194,135	194,135
Capital projects	---	---	---	---	123,562	71,339	---	194,901
Total Disbursements	\$ 367,942	\$ 72,608	\$ ---	\$ ---	\$ 123,562	\$ 71,339	\$ 194,135	\$ 829,586
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ 5,432	\$ 60,592	\$ 41,173	\$ 41,173	\$ 3,668	\$ (63,848)	\$ (75,508)	\$ 12,682

See notes to financial statements.

EXHIBIT "B" (Continued)

**CITY OF EPWORTH
EPWORTH, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BALANCES - GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005**

		Special Revenue				Capital Project		
	General	Road Use Tax	Local Tax Community Betterment	Local Tax Assessment Pool	Housing Rehab Projects	Paving Project	Debt Service	Total
	-----	-----	-----	-----	-----	-----	-----	-----
Other Financing Sources (Uses):								
Sale of capital assets	\$ 750	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ 750
Transfers in	---	---	---	---	---	---	80,000	80,000
Transfers out	---	---	(40,000)	(40,000)	---	---	---	(80,000)
	-----	-----	-----	-----	-----	-----	-----	-----
Total Other Financing Sources (Uses)	\$ 750	\$ ---	\$ (40,000)	\$ (40,000)	\$ ---	\$ ---	\$ 80,000	\$ 750
	-----	-----	-----	-----	-----	-----	-----	-----
Net Change in Cash Balances	\$ 6,182	\$ 60,592	\$ 1,173	\$ 1,173	\$ 3,668	\$ (63,848)	\$ 4,492	\$ 13,432
Cash Balances Beginning of Year	312,910	32,555	100,228	17,893	(6,163)	447,826	9,445	914,694
	-----	-----	-----	-----	-----	-----	-----	-----
Cash Balances End of Year	\$ 319,092	\$ 93,147	\$ 101,401	\$ 19,066	\$ (2,495)	\$ 383,978	\$ 13,937	\$ 928,126
	=====	=====	=====	=====	=====	=====	=====	=====
Cash Basis Fund Balances:								
Reserved:								
Debt service	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ 13,937	\$ 13,937
Unreserved:								
General fund	319,092	---	---	---	---	---	---	319,092
Special revenue funds	---	93,147	101,401	19,066	(2,495)	---	---	211,119
Capital project funds	---	---	---	---	---	383,978	---	383,978
	-----	-----	-----	-----	-----	-----	-----	-----
Total Cash Basis Fund Balances	\$ 319,092	\$ 93,147	\$ 101,401	\$ 19,066	\$ (2,495)	\$ 383,978	\$ 13,937	\$ 928,126
	=====	=====	=====	=====	=====	=====	=====	=====

See notes to financial statements.

**CITY OF EPWORTH
EPWORTH, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005**

	Enterprise Funds			
	Water	Sewer	Utility Deposits	Total
Operating Receipts:				
Use of money and property	\$ 1,022	\$ 948	\$ 3,520	\$ 5,490
Charges for service	95,681	87,857	---	183,538
Total Operating Receipts	\$ 96,703	\$ 88,805	\$ 3,520	\$ 189,028
Operating Disbursements:				
Business Type Activities	\$ 83,994	\$ 95,848	\$ 3,270	\$ 183,112
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	\$ 12,709	\$ (7,043)	\$ 250	\$ 5,916
Nonoperating Receipts:				
Miscellaneous	6,608	514	---	7,122
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ 19,317	\$ (6,529)	\$ 250	\$ 13,038
Cash Balances Beginning of Year	72,380	61,672	6,740	140,792
Cash Balances End of Year	\$ 91,697	\$ 55,143	\$ 6,990	\$ 153,830
Cash Basis Fund Balances:				
Reserved for debt service	\$ 23,539	\$ 14,823	\$ ---	\$ 38,362
Unreserved	68,158	40,320	6,990	115,468
Total Cash Basis Fund Balances	\$ 91,697	\$ 55,143	\$ 6,990	\$ 153,830

See notes to financial statements.

**CITY OF EPWORTH
EPWORTH, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30 2005**

Note 1 - Summary of Significant Accounting Policies:

The City of Epworth is a political subdivision of the State of Iowa located in Dubuque County. It was first incorporated in 1880 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides, water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Epworth, Iowa, has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Dubuque Metropolitan Solid Waste Agency, Iowa Mutual Aid Compact, Dubuque County 911 Board, Eastern Iowa Regional Housing Authority, and the Eastern Iowa Regional Housing Corporation.

**CITY OF EPWORTH
EPWORTH, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30 2005**

Note 1 - Summary of Significant Accounting Policies: (Continued)

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and proprietary funds are aggregated and reported as nonmajor funds in their respective financial statements.

**CITY OF EPWORTH
EPWORTH, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30 2005**

Note 1 - Summary of Significant Accounting Policies: (Continued)

B. Basis of Presentation (Continued)

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Tax Community Betterment Fund is used to account for receipts derived from a duly imposed local sales tax with 25 percent allocated to community betterment.

The Local Tax Assessment Pool Fund is used to account for receipts derived from a duly imposed local sales tax with 25 percent allocated to the reduction of assessments for future street projects.

The Housing Rehabilitation Projects Fund is used to account for housing rehabilitation projects financed by intergovernmental grants.

Debt Service:

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

Capital Projects:

The Paving Project Fund is used to account for all resources used in acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

**CITY OF EPWORTH
EPWORTH, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30 2005**

Note 1 - Summary of Significant Accounting Principles: (Continued)

B. Basis of Presentation (Continued)

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Utility Deposits Fund accounts for receipts derived from utility customer deposits on water meters.

C. Measurement Focus and Basis of Accounting

The City of Epworth maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with United States of America generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Note 2 - Cash and Pooled Investments:

The City's deposits in banks at June 30, 2005, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

**CITY OF EPWORTH
EPWORTH, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30 2005**

Note 2 - Cash and Pooled Investments: (Continued)

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$344,412 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturity longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit risk - The City's investment in the Iowa Public Agency Investment Trust is unrated.

Note 3 - Notes Payable:

Annual debt service requirements to maturity for general obligation notes and revenue notes are as follows:

Year Ending June 30, -----	General Obligation Note		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
-----	-----	-----	-----	-----	-----	-----
2006	\$ 130,000	\$ 17,400	\$ ---	\$ ---	\$ 130,000	\$ 17,400
2007	135,000	14,410	15,190	23,172	150,190	37,582
2008	175,000	10,833	27,038	11,324	202,038	22,157
2009	180,000	5,670	28,390	9,972	208,390	15,642
2010	---	---	29,809	8,552	29,809	8,552
2011-2015	---	---	125,241	21,251	125,241	21,251
2016	---	---	15,994	800	15,994	800
	-----	-----	-----	-----	-----	-----
	\$ 620,000	\$ 48,313	\$ 241,662	\$ 75,071	\$ 861,662	\$ 123,384
	=====	=====	=====	=====	=====	=====

**CITY OF EPWORTH
EPWORTH, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30 2005**

Note 3 - Notes Payable: (Continued)

The resolution providing for the issuance of the water revenue note includes the following provisions:

- (a) The note will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the fund.
- (b) Beginning July 1 and continuing until June 1, a sum equal to one-eleventh of the principal and interest of the note maturing on June 1, and continuing thereafter, a sum equal to one-twelfth of the principal and interest of the note maturing on the following June 30, shall be set aside from the net earnings of the water utility each month into the Water Revenue Fund.
- (c) After the required payments of principal and interest have been set aside in the Water Revenue Fund, there shall be set aside each month into a Principal and Interest Reserve Account the sum of \$1,961, until \$23,539 has been accumulated in the Reserve Account.

The resolution providing for the issuance of the sewer revenue note includes the following provisions:

- (a) The note will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the fund.
- (b) Beginning July 1 and continuing until June 1, a sum equal to one-eleventh of the principal and interest of the note maturing on June 1, and continuing thereafter, a sum equal to one-twelfth of the principal and interest of the note maturing on the following June 1, shall be set aside from the net earnings of the sewer utility each month into the Sewer Revenue Fund.
- (c) After the required payments of principal and interest have been set aside in the Sewer Revenue Fund, there shall be set aside each month into a Principal and Interest Reserve Account the sum of \$1,235 until \$14,823 has been accumulated in the Reserve Account.

**CITY OF EPWORTH
EPWORTH, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30 2005**

Note 4 - Pension and Retirement Benefits:

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.90%, respectively, and for the year ended 2003 the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2005, was \$10,089, equal to the required contributions for the year.

Note 5 - 28 E Agreements:

The City participates in two 28E agreements:

In 1992, the City entered into a 28E Agreement with the Cities of Farley and Asbury, Iowa, to purchase a wood chipper. Each of the three cities are co-owners of the wood chipper, an undivided one-third interest each.

In 1991, the City entered into a 28E Agreement with the County of Dubuque for the purpose of providing mutual law enforcement aid.

Note 6 - Compensated Absences:

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. Sick leave and personal leave accumulates but is not payable upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation leave termination payments payable to employees at June 30, 2005, primarily relating to the General and Enterprise Funds, is as follows:

**CITY OF EPWORTH
EPWORTH, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30 2005**

Note 6 - Compensated Absences: (Continued)

Type of Benefit -----	Amount -----
Vacation	\$ 4,438 =====

The liability has been computed based on rates of pay as of June 30, 2005.

Note 7 - Interfund Transfers:

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to -----	Transfer from -----	Amount -----
Debt Service	Special Revenue:	
	Local Tax Community Betterment	\$ 40,000
	Local Tax Assessment Pool	40,000

		\$ 80,000 =====

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

Note 8 - Related Party Transaction:

The City had business transactions between the City and City Officials, totaling \$5,048 during the year ended June 30, 2005.

Note 9 - Risk Management:

The City of Epworth is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in the past fiscal year.

**CITY OF EPWORTH
EPWORTH, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30 2005**

Note 10 - Construction in Progress/Commitment:

On April 12, 2005, the City entered into a contract totaling \$324,147 for street and water main improvements. At June 30, 2005, no payments had been made on this contract.

Note 11 - Lease Agreement:

On May 15, 2005, the City entered into a lease agreement with Operation: New View Community Action Agency Head Start Program. The City will lease space at the Epworth Early Childhood Center for \$500 per month for ten months from August 15, 2005 to June 15, 2006.

Note 12 - Deficit Fund Balance:

The Special Revenue, Housing Rehab Project Fund had a deficit balance of \$2,495. The deficit balance is a result of costs incurred prior to availability of funds.

Note 13 - Intent to Sell Real Estate:

The City agreed to sell real estate for \$50,000 in an offer dated March 27, 2005. As of June 30, 2005, the sale was not complete and remained contingent upon final inspection of the property.

Note 14 - Accounting Change and Restatements:

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended June 30, 2005. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

**CITY OF EPWORTH
EPWORTH, IOWA**

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2005**

	Governmental Funds Actual	Proprietary Funds Actual	Net	Budgeted Amounts		Final to Net Variance
	-----	-----	-----	Original	Final	-----
Receipts:						
Property tax	\$ 247,680	\$ ---	\$ 247,680	\$ 248,107	\$ 248,107	\$ (427)
Other city tax	169,492	---	169,492	120,000	150,000	19,492
Licenses and permits	3,256	---	3,256	2,120	2,120	1,136
Use of money and property	23,182	5,490	28,672	13,400	13,400	15,272
Intergovernmental	270,513	---	270,513	439,000	439,000	(168,487)
Charges for services	98,230	183,538	281,768	257,550	257,550	24,218
Special assessments	2,019	---	2,019	2,000	2,000	19
Miscellaneous	27,896	7,122	35,018	9,600	40,600	(5,582)
	-----	-----	-----	-----	-----	-----
Total Receipts	\$ 842,268	\$ 196,150	\$ 1,038,418	\$ 1,091,777	\$ 1,152,777	\$ (114,359)
	-----	-----	-----	-----	-----	-----
Disbursements:						
Public safety	\$ 110,580	\$ ---	\$ 110,580	\$ 103,400	\$ 111,400	\$ 820
Public works	179,157	---	179,157	175,914	184,914	5,757
Culture and recreation	71,215	---	71,215	53,996	76,996	5,781
Community and economic development	11,862	---	11,862	9,560	15,560	3,698
General government	67,736	---	67,736	89,434	81,434	13,698
Debt service	194,135	---	194,135	194,286	194,286	151
Capital projects	194,901	---	194,901	700,000	700,000	505,099
Business type activities	---	183,112	183,112	169,301	212,301	29,189
	-----	-----	-----	-----	-----	-----
Total Disbursements	\$ 829,586	\$ 183,112	\$ 1,012,698	\$ 1,495,891	\$ 1,576,891	\$ 564,193
	-----	-----	-----	-----	-----	-----

See accompanying independent auditor's report.

**CITY OF EPWORTH
EPWORTH, IOWA**

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS)-
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2005**

	Governmental Funds Actual	Proprietary Funds Actual	Net	Budgeted Amounts		Final to Net Variance
	-----	-----	-----	Original	Final	-----
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ 12,682	\$ 13,038	\$ 25,720	\$ (404,114)	\$ (424,114)	\$ 449,834
Other Financing Sources, Net	750	---	750	---	---	750
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	\$ 13,432	\$ 13,038	\$ 26,470	\$ (404,114)	\$ (424,114)	\$ 450,584
Balances Beginning of Year	914,694	140,792	1,055,486	927,077	927,077	128,409
Balances End of Year	<u>\$ 928,126</u>	<u>\$ 153,830</u>	<u>\$ 1,081,956</u>	<u>\$ 522,963</u>	<u>\$ 502,963</u>	<u>\$ 578,993</u>

See accompanying independent auditor's report.

**CITY OF EPWORTH
EPWORTH, IOWA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY REPORTING**

JUNE 30, 2005

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and nonprogram. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted revenues by \$61,000 and budgeted disbursements by \$81,000. The budget amendment is reflected in the final budgeted amounts.

**OTHER
SUPPLEMENTARY
INFORMATION**

SCHEDULE "1"

**CITY OF EPWORTH
EPWORTH, IOWA**

**SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2005**

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
General Obligation Notes:									
Street Improvement	May 1, 1999	4.10-4.25%	\$ 690,000	\$ 130,000	\$ ---	\$ 130,000	\$ ---	\$ 5,525	\$ ---
Street Improvement	April 4, 2003	1.60-3.15%	700,000	660,000	---	40,000	620,000	18,160	---
Total General Obligation Notes				<u>\$ 790,000</u>	<u>\$ ---</u>	<u>\$ 170,000</u>	<u>\$ 620,000</u>	<u>\$ 23,685</u>	<u>\$ ---</u>
				=====	=====	=====	=====	=====	=====
Revenue Notes:									
Water	September 27, 1978	5.0%	\$ 397,000	\$ 186,051	\$ ---	\$ 15,867	\$ 170,184	\$ 7,672	\$ ---
Sewer	December 17, 1980	5.0%	250,000	82,943	---	11,465	71,478	3,358	---
Total Revenue Notes				<u>\$ 268,994</u>	<u>\$ ---</u>	<u>\$ 27,332</u>	<u>\$ 241,662</u>	<u>\$ 11,030</u>	<u>\$ ---</u>
				=====	=====	=====	=====	=====	=====

See accompanying independent auditor's report.

SCHEDULE "2"

**CITY OF EPWORTH
EPWORTH, IOWA**

**BOND AND NOTE MATURITIES
JUNE 30, 2005**

Year Ending June 30 -----	General Obligation Note		Revenue Notes				
	Street Improvement		Water Note		Sewer Note		
	Issued April 1, 2003		Issued September 27, 1978		Issued December 17, 1980		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total
	-----	-----	-----	-----	-----	-----	-----
2006	2.30%	\$ 130,000	5.0%	\$ ---	5.0%	\$ ---	\$ ---
2007	2.65%	135,000	5.0%	7,221	5.0%	7,969	15,190
2008	2.95%	175,000	5.0%	15,391	5.0%	11,647	27,038
2009	3.15%	180,000	5.0%	16,160	5.0%	12,230	28,390
2010		---	5.0%	16,968	5.0%	12,841	29,809
2011		---	5.0%	17,817	5.0%	13,483	31,300
2012		---	5.0%	18,708	5.0%	13,308	32,016
2013		---	5.0%	19,643		---	19,643
2014		---	5.0%	20,625		---	20,625
2015		---	5.0%	21,657		---	21,657
2016		---	5.0%	15,994		---	15,994
		-----		-----		-----	-----
Total		\$ 620,000		\$ 170,184		\$ 71,478	\$ 241,662
		=====		=====		=====	=====

See accompanying independent auditor's report.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor
and Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund of the City of Epworth, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated August 10, 2005. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2004. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our report included an explanatory paragraph on the implementation of GASB Statements No. 34, 37, 38, and 41 and the disclaimer of opinion on the required supplementary information including Management's Discussion and Analysis.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Epworth's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Epworth's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-05 and I-C-05 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Epworth's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Epworth and other parties to whom the City of Epworth may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Epworth during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

O'CONNOR, BROOKS & CO., P.C.

Dubuque, Iowa
August 10, 2005

**CITY OF EPWORTH
EPWORTH, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005**

Part I: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- I-A-05 Segregation of Duties - One important aspect of the internal control over financial reporting is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted substantially all accounting functions are performed by one individual.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain maximum internal control possible under the circumstances. We recommend that the bank statements be delivered directly to a City official other than the Clerk for review before being given to the individual responsible for the account reconciliations.

Response - We will consider this.

Conclusion - Response accepted.

- I-B-05 Credit Cards - The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation - The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response - We presently have unwritten guidelines. However, we have not established a formal written policy detailing specifics on the use of City credit cards. We will review procedures and guidelines and establish a written policy.

Conclusion - Response accepted.

**CITY OF EPWORTH
EPWORTH, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005**

Part I: Findings Related to the Financial Statements:

I-C-05 Vendors - City operation requires the use of a variety of vendors. The City has not adopted a formal policy for the addition and approval of vendors. The clerk can add a vendor without council approval, and the maintenance manager has purchased goods from new vendors with supervisor approval only.

Recommendation - The City should adopt a formal written policy for the use and approval of vendors. The policy should stipulate that council approval is needed before new vendors may be added to an approved vendor listing. The policy should also specify who is authorized to make purchases and require a prenumbered purchase order system to minimize the potential for unauthorized expenditures.

Response - We will consider this.

Conclusion - Response accepted.

Part II: Other Findings Related to Statutory Reporting:

II-A-05 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

II-B-05 Certified Budget - No disbursements during the year ended June 30, 2005, exceeded the amounts budgeted. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

II-C-05 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-05 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-E-05 Business Transactions - Business transactions between the City and City officials or employees were detailed as follows:

**CITY OF EPWORTH
EPWORTH, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005**

Part II: Other Findings Related to Statutory Reporting: (Continued)

II-E-05 Business Transactions (Continued)

Name, Title, and Business Connection	Transaction Description	Amount
Phillip Silker, Mayor, Employee and son of owner of Silker's Store	Parts and supplies	\$ 1,492
Dave Bries, Council Member, Owner of Bries Construction	Construction, per bid	3,556

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the Mayor do not appear to represent a conflict of interest since total transactions were less than \$2,500 during the fiscal year. The transaction with the Council Member does not appear to represent a conflict of interest since it was entered into through competitive bidding.

II-F-05 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-05 Council Minutes - No transactions were found that we believe should have been approved in the council minutes but were not.

II-H-05 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-I-05 Revenue Bonds and Note - The City has complied with the revenue bond and note resolutions.

II-J-05 Code of Ordinances - The City maintains a code of ordinances. The City Clerk annually compiles a supplement to be adopted by a resolution. It was noted the supplement was not adopted by a resolution during the year.

**CITY OF EPWORTH
EPWORTH, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005**

Part II: Other Findings Related to Statutory Reporting: (Continued)

II-J-05 Code of Ordinances (Continued)

Recommendation - We recommend the resolution be passed by the City Council.

Response - We will do this.

Conclusion - Response accepted.

II-K-05 Financial Condition - The Special Revenue Housing Projects Fund had a deficit balance at June 30, 2005 of \$2,495.

Recommendation - The City should investigate alternatives to eliminate the deficit in order to return this fund to a sound financial position.

Response - The deficit was due to costs incurred prior to availability of funds.

Conclusion - Response accepted.